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FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC 4405
INFO RUCPDO/DEPT OF COMMERCE WASHDC
RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE

UNCLAS KYIV 002889

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SENSITIVE

DEPT FOR EUR/UMB, EUR/NCE, EUR/ERA
DEPT FOR EEB/CIP, EEB/CIP/BA/MSELINGER
USDOC FOR 4231/ITA/OEENIS/NISD/CLUCYK

E.O. 12958: N/A

TAGS: [ECPS](#) [BEXP](#) [EINT](#) [UP](#)

SUBJECT: UKRAINE: UKRTELECOM LAUNCHES 3G MOBILE PHONE SERVICE
PROGRAM

REF: A) KYIV 1595, B) KYIV 4386

Sensitive But Unclassified. Not for Internet Distribution.

11. (SBU) On November 14 EconOffs met with representatives of state fixed-line monopoly Ukrtelecom to discuss the November 1 roll out of its 3G (third generation) communication services in six major cities under the U'tel trademark. Igor Syrotenko, Ukrtelecom's Deputy Chairman for Marketing and Sales, acknowledged launching the project was expensive, but stated his company cut costs by building the new network using the existing Ukrtelecom infrastructure. According to press reporting, Ukrtelecom already has invested about USD 150 million in the network and plans to invest an additional USD 146 million next year. Costs mainly have been driven by the 600 base stations Ukrtelecom plans to put in place across Ukraine's regions by the end of this year. The large number of base stations is needed because the technology's high frequency covers only a small area.

12. (SBU) When asked about the current subscriber base for 3G services, Syrotenko admitted that only about 500 customers had signed up since the network was launched two weeks ago. According to public statements made by Ukrtelecom Chairman Georgiy Dzekon, Ukrtelecom hopes to add 500,000 new customers within the next two years. Availability of appropriate handsets is a major challenge, since only 16 to 20 percent of the handsets for sale in Ukraine can use 3G technology. In addition, Ukrtelecom must get approval from the Cabinet of Ministers for its marketing budget, which has been difficult to obtain because the Cabinet remains distracted by the recent pre-term parliamentary elections (ref A). An educational campaign is planned and Syrotenko said the marketing budget would be in the tens of millions of hryvnias (1 USD equals 5.05 hryvnias).

13. (SBU) Despite these problems, Ukrtelecom enjoys a monopoly as sole provider of 3G services in Ukraine. (Note: In 2005 the National Communications Regulatory Commission granted Ukrtelecom Ukraine's first nationwide 3G license for USD 30 million. It has subsequently denied licenses to Ukrtelecom's competitors - ref B. End Note). Syrotenko told us that Ukrtelecom is in favor of competition because it makes the company stronger. Ukrtelecom believes that 3G can also compete against existing mobile competitors using older standards, since 3G uses the UMTS/WCDMA standard, which provides higher quality service, such as fewer dropped calls and clearer reception. According to Syrotenko, U'tel's market share could reach 1.5 percent of the entire market.

14. (SBU) Lena Minich, U'tel's Director of Marketing and Consumer Services, told EconOffs that U'tel is focusing nearly all of its marketing efforts on Ukrtelecom's current customer base. According to Minich, U'tel will attract its current fixed line and Internet customers by offering bundled services or one-stop shopping. For

example, current Ukrtelecom customers who subscribe to U'tel will receive special pricing and access to packages such as family and friend calling programs and combined services billing. Minich asserted that potential new 3G competitors would not be able to compete with Ukrtelecom because they will not have direct access to such an enormous customer base.

15. (SBU) Comment: It strikes us as a little far-fetched that Ukrtelecom hopes to win 3G customers from its existing fixed-line customer base, many of whom have never owned a mobile phone, rather than target existing cell phone users, the logical first candidates to switch to the more expensive and complicated 3G network. In any case Ukrtelecom hopes to use 3G to re-capture a slice of Ukraine's UAH 40 billion (USD 8 billion) mobile phone market, and to offset losses from its fixed-line business. Ukrtelecom left the market after its mobile subsidiary, UMC, was sold to Russian interests in a murky deal under former President Kuchma. The monopoly desperately needs to improve both its image and its profitability if it is to finally be privatized, a goal that has eluded the GOU for nearly a decade. Giving Ukrtelecom a 3G monopoly may have been a direct ploy to prepare Ukrtelecom for privatization. Alternatively, the GOU might spin off and sell only the 3G subsidiary if it acquires a significant market presence. End comment.

TAYLOR